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The Finnish Innovation System and Innovation Policy

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Creating Economic Space for Social Innovation

The Finnish Innovation System and Innovation Policy¹

Finland as a Welfare State

Finland is a latecomer among the welfare states. It came out from World War II as a relatively poor agrarian country that had been forced to cede 15 per cent of its territory to the Soviet Union. In 1950, Finland's population amounted to 4 million inhabitants, almost 0.5 million of whom had had to be resettled due to the annexation of East Karelia to the Soviet Union in the Moscow Peace Treaty in 1944, and its only competitive export sector was the forestry and paper mill industry. At the same time, Finland had to carry the extra burden of paying indemnity to the Soviet Union mainly in the form of ships and machinery. These war reparations placed a heavy strain on the country but were eventually paid in full. In the long run, this effort turned out to be profitable: it forced Finland to establish another competitive export sector capable of producing large ships and advanced industrial machinery for the global market.

The forestry sector and the metal industry together formed the basis of resource provision for the development of the Finnish welfare state. This was especially so from the second half of the 1960s onwards when a political constellation emerged that made it possible to create a relative consensus and a new social contract including an initiative to reduce strikes in industry and a related project of building a welfare state using the British Beveridge plan and the Swedish example as a model. The social and political settlement of the time was referred to as 'the Triangle' because it was based on the cooperation of three actors – employers' organisations, labour unions and the Finnish state. Collective bargaining on labour contracts thus routinely included not only collective agreements on salaries and working conditions but also legislative reforms extending the welfare state. It was widely accepted that what was good for the export industry was also good for the Finnish population. The benefits were believed to be spread across society by nationwide labour contracts, providing benefits for those employed in the export sector and the extension of welfare benefits for the whole population in the fields of free education, affordable healthcare and social security as the last safety net for those who were unemployed or otherwise in need.

Between 1960 and 1980, Finland succeeded in establishing a full-blown Nordic welfare state, which resembled other Scandinavian welfare states in that it was based on progressive taxation and on the idea that the public sector would provide equal services to all citizens by producing the services itself rather than by outsourcing them or by granting welfare benefits for the citizens for purchasing the services they needed. This model differs from the Central European and Anglo-American models in that the benefits it offers are relatively generous and that services are targeted directly at individual citizens rather than at families or communities. It is, therefore, also sometimes referred to as an 'individualising' welfare state (Esping-Andersen, 1990; Esping-Andersen, 1999; Castells and Himanen, 2002; Kananen, 2014).

The international recession of the early 1990s hit Finland harder than most other OECD countries due to the co-occurrence of the collapse of the Soviet Union that halted 20 per cent of Finnish export overnight and the burst of the housing bubble caused by the radical

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deregulation of the financial sector in the second half of the 1980s. Public revenues dwindled and at the same time unemployment increased from less than 4 per cent in 1990 to 16.6 per cent in 1994, which was unfortunate in itself but also caused a considerable increase in the public resources needed for welfare benefits. This naturally raised interest in the re-evaluation of the welfare state model. There was political debate about the issue between the political parties, each of them preferring a slightly different model. Over the course of the 1990s, the generosity of certain benefits was cut by 10 to 20 per cent in certain instances. The three 'lean' years of recession (1991–1993) were followed by at least seven 'fat' years (1994–2000), during which the Finnish GNP rose annually by 4–5 per cent, a number considerably above the mean of the OECD countries in that period. In large part, this recovery resulted from the emergence of the Nokia-driven ICT sector, the third successful export sector in Finland at the time (Heiskala and Luhtakallio, 2006).

Today, with its 5.5 million inhabitants, Finland ranks among the top countries in the world in terms of gross national product per capita (EUR 37,138 in 2013). As in other OECD countries, New Public Management has heavily influenced the public policy model in Finland. There has been an increasing concern about the efficiency and effectiveness of public resources and the role of non-state actors in the delivery of education, health care and welfare services. Inequality has increased in the process so that the unemployment rate is 10.1 per cent in 2015 and the Gini coefficient, which was 0.22 in 1995, increased to 0.28 in 2013. In international comparisons, Finland is still a country of relatively mild social inequality and, is widely recognised as belonging to the Nordic family of welfare states. It remains to be seen whether it can keep this identity in the future due to a growing elderly dependency ratio. In addition, all three export sectors are undergoing structural changes, the results of which also remain to be seen.

One important feature of the Finnish political system is that even if there are eight political parties in the Parliament and the post of the Prime Minister has been rotating over the years between the Centre Party, the Social Democratic Party and the moderate conservative National Coalition Party after the late 1980s, there is plenty of continuity in the political line of different governments. This is due to at least three factors. First, the popularity of the four biggest parties (i.e. the three mentioned above and the EU-critical and populist party called The Finns Party, which in other than EU issues combines elements of the programmes of the three others) varies between 15 and 25 per cent, which means that none of them can form a government of its own. The Government of Finland normally consists of at least two of the four big parties and of two to four small parties (i.e. the Greens, the Left Alliance, the Swedish Peoples' Party and the Christian Democratic Party). Second, even if the emphasis varies to some extent, all political parties in Finland defend the Nordic welfare state and do not interpret neoliberalism in a radical way. Third, the Finnish administrative machinery implements several organisational practices designed to enable and even enforce continuity between governments. These include the Reports and Policy Programmes by the Research and Innovation Council, the Foresight Reports by all ministries and the related idea of the Finnish national innovation system, all of which will be discussed more specifically below. Before that, however, it is useful to note that the Finnish parliamentary election was held on 19 April 2015. As a result, the sitting government consisting of the National Coalition Party and the Social Democratic Party lost. The biggest winner was the main opposition party, the Center Party, and The Finns Party, another opposition party, consolidated its position as the

second biggest parliamentary group. After a brief round of negotiations the two winning parties formed a center-right coalition government with the National Coalition Party as the third participant and Juha Sipilä from the Center Party as the PM.

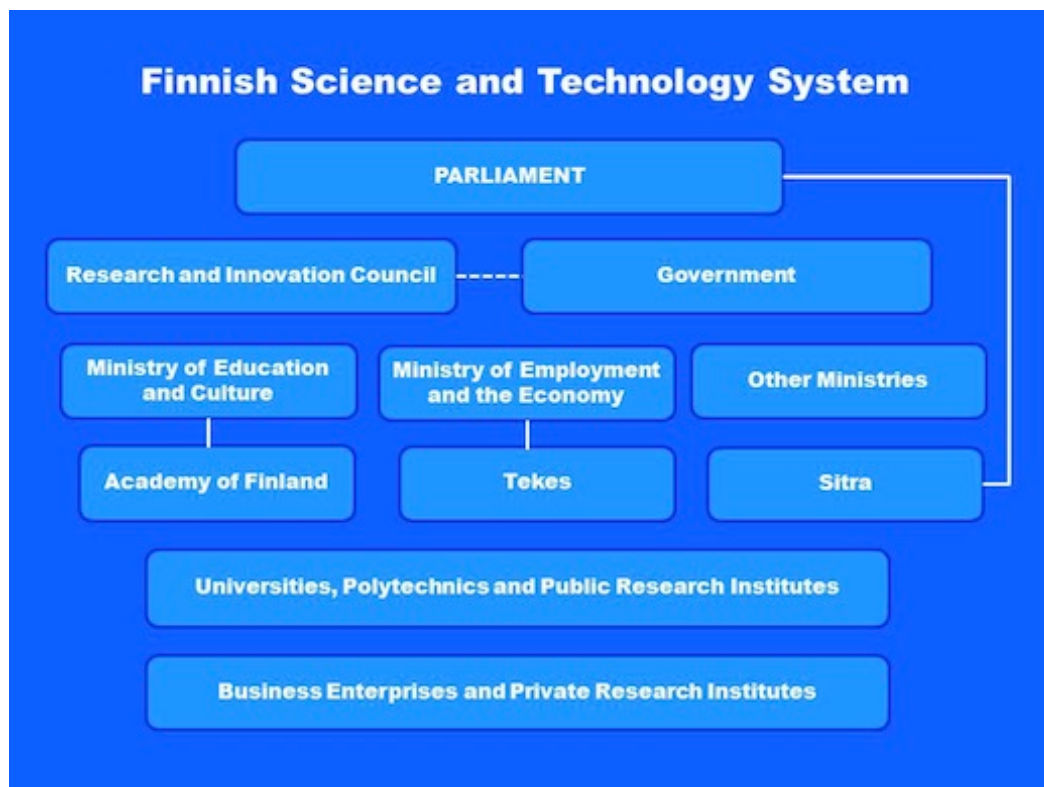
The national innovation system

The concept of the ‘national innovation system’ (NIS) was introduced to the academic community by Christopher Freeman for the purposes of studying innovation networks and the economic performance of countries (Freeman, 1987). Soon other researchers used it also for the same purpose, often combined with ideas concerning forms of interactive learning (Lundvall, 1992; Sharif, 2006; Godin, 2009). Finland was the first country to introduce the concept as a basis for national policy in 1990 and act as a model of the OECD’s campaigns to disseminate the concept among other member states (Miettinen, 2013). The NIS was viewed as the Finnish way to make sense of the role of public authorities in their attempts to create a virtuous cycle between robust education, extensive research and development, economic growth and welfare provision (Castells and Himanen, 2002).

The roots of the Finnish NIS go back to the 1980s and lie in the establishment of The Finnish Funding Agency for Technology and Innovations ([Tekes](#)) in 1983. Cooperation between the [Academy of Finland](#), Finnish universities, sectorial research institutes, private firms and public authorities was viewed as a key engine for economic growth. An important milestone in the process was the establishment of the Science and Technology Council in 1987 (Research and Innovation Council [since](#) 2009) as a coordinating body for education, research and the promotion of industry. The Council formally works under the Ministry of Education and Culture but it’s role has been much more important than that of any sectorial administrative body because it is chaired by the Prime Minister and its membership consists of the Minister of Education and Science, the Minister of the Economy, the Minister of Finance, and a maximum of six other ministers appointed by the Government. In addition to the ministerial members, the Council is comprised of ten other members representing expertise in research and innovation and appointed by the Government for the parliamentary term. The Council drafted several influential policy documents in the 1990s and 2000s and the documents were all the more influential because they enjoyed bipartisan support irrespective of the political administration in power. Therefore, it can be said that the NIS thinking has been a virtually uncontested state ideology in Finland during the past quarter of a century.

The adoption of NIS thinking was parallel to the rise of the Finnish ICT sector and Nokia in particular. This was by no means a coincidence because the Finnish state wanted to do and actually did everything in its power to promote, through educational policy and tax reductions, the rise of Nokia, and more generally the ICT sector, as a solution to the hard recession of the early 1990s. Yet the NIS ideology extends also to the other two important export sectors (the forestry and metal industries) and even beyond them. [Figure 4](#) gives a pictorial representation of the current description of the system:

Figure 1: National Innovation System in Finland



Source: <http://www.research.fi/en/finnish-strategy-and-policy-guidelines/innovation-system>

Best introductions to the current workings of the system are provided in the [international evaluation](#) of the Finnish national innovation system executed in 2009 and the current review ordered by the World Bank in 2013 entitled ‘[Finland as a Knowledge Economy 2.0](#)’.

Miettinen (2013: 52-101) provides an illuminating inquiry into the phases of the Finnish NIS during the past two or three decades and the tensions arising from this. We will not go any deeper into the topic here but it is worth mentioning that, as Miettinen, whose narration we follow here, notes, the concept of innovation was first understood in both the academic NIS research and in NIS policies as a technical-economic concept. An example of this in Finland is the final report of a project by the Finnish Innovation Fund [Sitra](#) in 2001 which, although building on such an understanding of the concept, takes the network approach seriously (Schienstock and Hämäläinen, 2001). Therefore, it is no wonder that criticism emerged claiming that the NIS perspective applied in Finland in the 1990s was too firm-centered, elitist and did not pay enough attention to basic research and the specific nature of academic work in universities (Miettinen, 2013: 6-7). Consequently, the concept of *social* innovation started to circulate in debates and the Finnish Innovation Fund Sitra decided to also finance a project on social innovations. The Finnish final reports of the project were published in 2004-2006 (Hämäläinen and Heiskala, 2004; Heiskala and Luhtakallio, 2006) and the international report in 2007 (Hämäläinen and Heiskala, 2007)

The curious thing in the Finnish debate on social innovations was that a shared understanding about what actually was meant by the concept never emerged. Some researchers provided very broad definitions according to which an innovation is ‘(1) an idea or a pattern that is defined as new and (2) has the impact of changing social practices (3) with the consequence of improved social and/or economic performance’ (Heiskala, 2007: 54) thus seeing a social aspect in all innovations. Others saw such definitions as too broad and wanted to focus either

on organisational innovations in a Schumpeterian sense or on innovations that had something to do with the sector of society the Ministry of Social Affairs and Health considered as its responsibility. The last mentioned definition of the concept has been most commonly used in many other countries such as the UK, which is quite understandable because there the state has cut its welfare programmes so radically that there is an obvious need to make the markets take care of many of the functions previously maintained by public authorities. In Finland, however, such a downsizing of the welfare state has not taken place, and the need to discuss social innovations in terms of market based care services has therefore been less urgent. Yet it has existed also in Finland and, in what follows, we will focus on it.

It is also worth mentioning that the Finnish government has recently, on the basis of a recommendation by the Research and Innovation Council, introduced a new policy tool in the field of research policy. It has transferred EUR 55 million per annum from the budget of the government's sectorial research organisations to the Academy of Finland to be used for the study of policy-relevant social innovations. The projects to be funded are big (six-year projects with a budget of approximately EUR 8 million) and they will be selected by a new body of the Academy of Finland called the [Strategic Research Council](#). The meaning of policy-relevant social innovation in the first round of this funding scheme is defined by three focus programmes: (1) Utilisation of disruptive technologies and changing institutions, (2) A climate-neutral and resource-scarce society, and (3) Equality and its promotion. In the coming years, the Council will presumably not only continue to fund these programmes but also introduce some new ones.

Social innovations in science and innovation policy reports

In Finnish Government Programmes, social innovation has never been a clearly defined concept. It is mentioned occasionally and in relation to various political fields. Social innovations are connected to a more general understanding of national innovation policy as a tool to ensure societal and economic development. Innovation and national innovation systems are mentioned for the first time in the 1995 Government Programme. Gradually they became catchwords to such extent that in the 2011 Government Programme the word 'innovation' was mentioned no less than 32 times on 67 pages.

The fondness of Finnish Governments to the word 'innovation' in the 2000s can be understood against the background of how Finland recovered from the exceptionally deep economic depression of the 1990s. The rapid economic boom in the second half of the 1990s was based on new technologies and their successful utilization. This was interpreted so that success in creating innovations is a key factor for the success of both business enterprises and society.

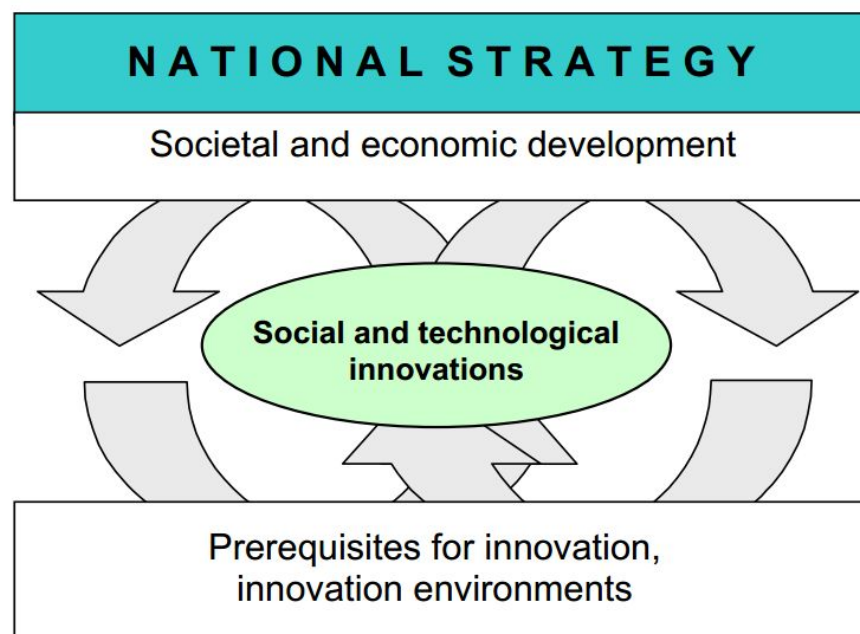
The development of innovation policy in political discourse soon started to signify the process of creating new entrepreneurial activities based on innovative research and design. This is especially evident in Government Programmes since 2003. What is typical of the Finnish political discourse is that innovations – both technical and social – are understood as objects potentially suitable as commercial products. For example, PM Katainen's 2011 Government Programme (VNK., 2011: 38) states that the government will 'accelerate the integrated development, introduction and commercialization of social and technical innovations' However, it does not elaborate at all what this might mean in more concrete terms.

As stated above, the Government Programmes employ the concept of social innovation in a rather coincidental way. Instead, in the reports by the Science and Technology Council (since 2009 The Research and Innovation Council) it has been a prominent topic. In 2003, the Council deliberately raised the concept of social innovation alongside that of technological innovation. Kai Husso and Esko-Olavi Seppälä (both officials in the Science and Technology Council) have reported that the intention in this phase was to emphasize the significance of innovation activities in all sectors of public administration and widen the technology-centred viewpoint (Husso and Seppälä, 2008). In the report this is expressed in the following way:

‘Technological development and technological innovations are generally considered the strongest area of Finnish innovation. The specific development challenges involved are thought to relate to intellectual property, entrepreneurship and innovation funding. Well-deserved attention has begun to be paid to the relative weakness of social innovation in the entity of innovation. Its development alongside technology is a major challenge for society and the economy. As yet Finland has no clear development strategy for social innovation. The challenge concerns both the organisations responsible for social development, the development of working life, and the safeguarding of individual development and opportunities by means of research-based innovations’ (Science and Technology Policy Council of Finland., 2003: 12-13).

Husso and Seppälä also remark that it was more important to bring the concept into public debate than to define what social innovation is or is not. Also, the main task of the Science and Technology Policy Council is to concentrate on issues of research and not on more general processes of creating and implementing innovations in society at large. It is worth noting that the 2003 Report (see quotation above) mentioned the need to create a development strategy for social innovations in Finland. That strategy was never achieved. The centrality of the idea of social innovations in the 2003 Report can be illustrated with a picture from the report (Figure 5). It shows that social and technological innovations are in the dynamic center of the national strategy for societal and economic development.

Figure 2: Innovations as promoters of social development



Source: (Science and Technology Policy Council., 2003: 6)

The 2006 Science and Technology Policy Council Report adopted a view of horizontal innovation policy. It connects technological and social innovations together so that social innovations are able to ensure the balanced social and economic development of a society:

‘Alongside technological innovations, there is a need for determined investment in the production and commercialization of social innovations. At the societal level, social innovations are particularly necessary for ensuring that economic and technological development do not diverge from the rest of societal and social development, and to create a favourable and steady breeding ground for economic and technological development. As strategic steering and development organisations, ministries have a significant role to play in this. They must focus their activities on, among other things, promoting the production, commercialization, and exploitation of social innovations’ (Science and Technology Policy Council of Finland., 2006: 8).

Later in the report, the Council arrives at the conclusion that social innovations are seldom objects of business activities alone.

‘Social innovation is an entirely horizontal development area that permeates all sectors of society. In its previous policy report (2002), the Science and Technology Policy Council considered the drawing up of a development strategy for social innovations a clear challenge. In the Sitra (Finnish National Fund for Research and Development) research project on social innovations (2004), social innovation was linked to reforms in various societal structures, which improve the efficiency of the society. Social innovation changes the society’s, the community’s, or the individuals’ way of acting, even though it may not be tangible in product and service markets. Significant technological innovations always have a social dimension – the significance of a social innovation becomes detectable when it is part of the change process of a larger system and is determined by its placement within the change processes. Social innovation in itself is seldom the object of business activities alone’ (Science and Technology Policy Council of Finland., 2006: 25).

In 2007, PM Vanhanen's Second Government Programme (VНК., 2007) took a step towards a more substantial understanding of social innovations. The government announced that it would launch a development project in the field of health and welfare services. It was called the ‘service innovation project’ (in Finnish: palveluinnovaatiohanke) and it aimed, on the one hand, to improve versatility, quality, cost-efficiency and the division of labour in health and welfare services. On the other hand, the project was also a typical public management development project with the aim of improving transparency, efficiency and evaluation processes of the management and finance of health and welfare services. The important aspect in this project was that it started to systematically collect information about and resources for already existing innovations in the field with the idea of spreading best practices at the same time.

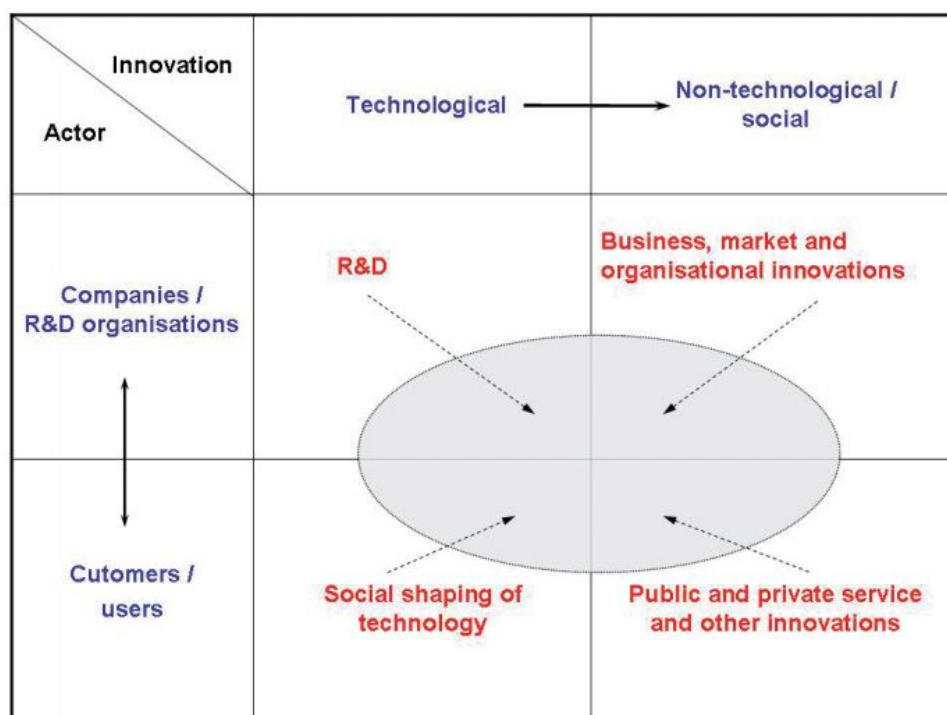
The development of service innovations and the principle of users as innovators are apparent in the 2008 Science and Technology Policy Council Report.

‘Due to horizontal development needs, an aim to also create non-technological and

social innovations through partnerships, and an emphasis on the role of customers and users have risen alongside the traditional R&D-driven activities within research and innovation policy. This perspective is emphasized because the ability and opportunities of customers and user communities to organise themselves, implement projects together and create new meanings have considerably improved' (Science and Technology Policy Council of Finland., 2008: 17-18).

Social innovations were now located in the field of services and in the relation between producers and customers of services. Figure 6 appears, in slightly modified versions, in all the reports since the year 2008.

Figure 3: Interactions between actors and functions in innovation field



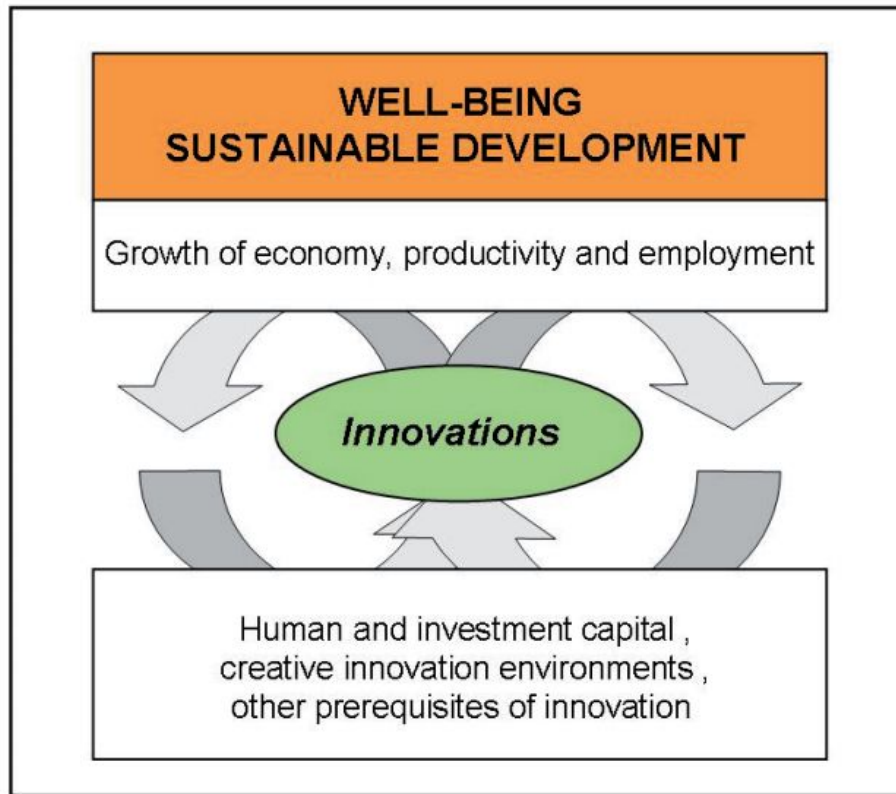
Source: (Science and Technology Policy Council., 2008: 21)

The 2007 Government Programme and the 2008 Council Report are significant because they articulate the idea that the development of public administration and social services is a process of creating and implementing social innovations. In this respect, the concept of social innovation gets an accessible and practical meaning in policy documents. The emphasis is on the need to remodel and improve processes in public administration and the idea of creating new commercial social innovations receives less attention, although it is occasionally mentioned in similar documents over the coming years.

These documents also mark a turning point in the popularity of the concept of social innovation in Finnish policy documents. The use and significance of the concept decrease as the discourse is replaced with new concepts and ideas. This is illustrated in the 2008 Council Report in Figure 7, which describes the place and function of innovations in the overall development of society. Graphically the picture is the same as in the 2003 Council Report, but the division between social and technological innovations has been erased. Also, the object of development has changed from the general 'societal and economic development' into 'growth of economy, productivity and employment', which places the targets of the social

development in the field of the economy. Clearly, the discourse has changed.

Figure 4: Innovations as promoters of social development



Source: (Science and Technology Policy Council., 2008: 17)

As a conclusion drawn from political programmes and Council Reports, it can be said that despite a considerable amount of unspecified talk and general interest towards social innovation, especially in the Council Reports, the Finnish Government has not taken any serious measures towards promoting the active use of social innovations as a strategic tool in making social reforms or in steering the current social change in Finnish society.

Instead, social innovation has been equated with technological innovations as potential export items. This is illustrated nicely in a book published in 2007 and entitled '100 social innovations from Finland' (Taipale, 2007). It presents all sorts of innovations from single-chamber parliament reform in 1907 and maternity and well-baby clinics to Nordic walking and liquorice. Another way to understand the function of social innovations has been their use in public administration reforms. This is the direction we will go in the next section.

Social innovations in social welfare and health care

Although Finland has not yet had a well-defined policy strategy for social innovations, this does not mean that social innovations have not been made use of in Finnish society. On the contrary, it can be said that especially in social welfare and health care social innovations have played a significant role. Before going into detail, it is necessary to describe the current outlines of the Finnish welfare system (Here we use [material](#) available on the webpages of the Ministry of Social Affairs and Health).

Municipal social welfare and health care services implemented with government support form the basis of the Finnish social welfare and health care system. Private companies provide

services alongside the public sector. In addition, Finland has a wide range of social welfare and health care organisations providing services both free of charge and for a fee.

In Finland, municipalities are responsible for organizing social welfare and health care even if the central government provides them with a frame and quite specific and extensive minimum standards through legislation. At the beginning of the year 2015, there were 317 municipalities in Finland. Finnish municipalities are small on average, the median number of inhabitants in a single municipality is slightly smaller than 6,000. However, variation in the number of inhabitants is great, ranging from the 623,123 inhabitants of the biggest municipality (Helsinki) to the 101 inhabitants of the smallest one (Sottunga) in 2015. Municipalities have strong autonomy, wide-ranging powers and the right to levy municipal tax. Education, health care and extensive social welfare services form typically 70–80% of the expenses of the municipal economy. Local income tax paid by residents, real estate tax and a share of corporate tax account for almost half of all municipal revenues. Fees and charges account for about a quarter of municipal revenues. Just under one tenth of social welfare and health expenditure is covered through customer and patient charges. Central government grants local authorities financial assistance in exchange for a wide range of statutory services. The central government transfer system evens out financial inequalities between local authorities and ensures equal access to services throughout the country. Central government transfers account for less than one fifth of all municipal revenues (Nousiainen, 2007).

The service structure in the Finnish health and welfare sector is rather complicated. Municipalities can provide basic social welfare and health care services alone, or form joint municipal authorities with other municipalities. They may also purchase social welfare and health care services from other municipalities, organisations or private service providers. Hospital districts organise specialized medical care: ‘some specialized medical care services are organised on the basis of special responsibility [areas](#) of university hospitals’. At present about 200 different municipal organisations carry the responsibility for both organizing social welfare and health care services and providing them.

Because municipalities in Finland are small on average and there is great variation in their economic situation and demographic structure, not all citizens have an equal chance to enjoy social welfare and health care services. Finnish people currently receive different levels of services depending on where they live and whether they use municipal services or occupational health care services provided by the employer. The Government has been [preparing](#) a social welfare and health care reform package over the past four years, which is likely to be realized during the next government term.

The latest available figures on the breakdown between private and public production of services are from the years 2008 and 2009. At the end of the year 2008, the total number of personnel in social and health services in Finland amounted to 362,000 persons. Of them, 25 per cent were employed by private enterprises and organisations. In social services, the share of the private sector was 31 per cent and in health services 20 per cent. Total costs of social and health services in 2009 amounted to EUR 21.2 billion euros. The share of public service production was 15.5 billion and private service production EUR 5.7 billion (Arajärvi and Väyrynen, 2011).

Third sector trusts, organisations and associations play a significant role as producers of

welfare and health services in Finland. Measured by costs, these organisations produced 16 per cent of social services and 4 per cent of health services in 2008. In some services, third sector organisations have a central position. This is the case for example in residential child welfare services for families in crises ([The Federation of Mother and Child Homes and Shelters](#)) and in housing services for alcohol and drug abusers. The central organisation for third sector organisations is the Finnish Federation for Social Affairs and Health, [SOSTE](#).

According to international evaluations, the Finnish system of social and health services functions relatively well. There are, however, growing challenges because of the ageing of the population, uneven regional, economic and social development in the country and labour shortage in this sector. Although the needs for services are growing, the financial resources are not increasing at the same pace.

In order to solve these dilemmas, the Ministry of Social Affairs and Health has conducted various development programmes, projects and service reforms over the years. The strategic steering tool to manage and reform social and health policy is The National Development Plan for Social Welfare and Health Care (currently it is called the Kaste Programme). These plans are based on the Act on Planning and Government Grants for Social Welfare and Health Care and they are prepared every four years. The programme defines development objectives for social and health care services in the next few years and the main measures for achieving them. Besides substantial targets of reducing inequalities in wellbeing and health, the programme also has a number of targets in the organisation of social and health services. The following are [mentioned](#): ‘Social welfare and health care structures and services will be organised in a client-oriented and economically sustainable way. Clients will rely on the quality and effectiveness of services. Well-functioning services and skilled personnel will be secured through management. Service structures will be economically sustainable and well-functioning.’

The Service Innovation Project in the years 2007–2011 had similar targets. It consisted of three parts. The first one produced a feedback and information device for customers to compare and evaluate service providers. The service [‘Palveluvaaka’](#) is still very much under construction. The second target of the Service Innovation Project was an open innovation community for actors in the welfare and health service sector. This internet-based service [‘Innokylä’](#) (‘Inno Village’) connects together information about various development projects and networks in the sector. The third part of the Service Innovation Project [concerned](#) the coordination of financing of the development projects in the field of welfare and health services.

The Finnish Funding Agency for Innovation (Tekes) has a programme for funding innovations in social and health care services. The programme [‘Social and Healthcare Services’](#) started in 2008. The programme has funded over 60 different service development projects in public organisations, companies and NGOs. The total budget of the programme is approximately EUR 100 million in 2012–2015, of which the share of Tekes funding is EUR 50 million. The main goals of the programme are to promote a customer-centred approach to services: to increase the cooperation between public, private and third sector actors; to develop preventive services; to increase customer choice and secure the cost efficacy, availability and quality of services; and to spread and implement good practices and create new business opportunities (The list of projects is available [here](#)).

Like all public and private organisations in any sector of society, organisations in the welfare and health care sector develop their own processes and functions. This sector has good resources for innovation because of the research done at the National Institute for Health and Welfare ([THL](#)) and at universities and other research institutes. Since the 1990s, research and development in social and health services has been relatively well funded. Innovations are created constantly, but the problem seems to be their sharing and implementation. It is typical of the Finnish model that development processes are organised as projects. After the project has ended, the new practices are not completely implemented, the key persons move into new assignments, and new knowledge is lost. Because the whole sector of social and health services is large, sharing information about innovations and good practice is a clear problem. This is why the Ministry of Social Affairs and Health has been interested in launching services like the above-mentioned Innokylä (Inno Village) (Taipale, 2007; Hämäläinen et al., 2011).

Saari (2008) has also noted that the steering system in Finnish social and health policy is more capable of creating new social innovations than of sharing and implementing the existing and locally tested ones. Because the service structure is very complicated, the same innovation should be implemented hundreds of times before it is taken into use everywhere. Officials in municipalities have limited resources to acquire the relevant information and there is much variation between municipalities in their possibilities to make investments in training of their personnel. The same naturally applies to private enterprises and third-sector organisations as well.

According to Saari (2008), the Finnish research and development funding policy in the social and health sector emphasizes more the viewpoint of the service provider than the viewpoint of the customer. Funding is based on the power and will of public authorities to allocate money to development work and less on the customer's perceptions of needs to develop and revise the services. This structure poses problems in the diffusion and implementation of innovations. The system also includes a certain innovation bias, because the level of funding crucially affects the readiness of organisations to start innovation processes. Available resources will be used regardless of the real need for reforms in the organisation.

Social enterprises and social firms in Finland

The [Act on Social Enterprises](#) in Finland was passed in 2003. The act defines social enterprises as companies providing work for persons with difficulties in finding employment because of disability or sickness or because of long-term unemployment. The Ministry of Employment and the Economy characterizes social enterprises in the following [way](#):

'The purpose of social enterprises is to create jobs in particular for the disabled and long-term unemployed. Social enterprises are no different from other companies, as companies. They produce goods and services for the market and try to make a profit, the same as any other business. A social enterprise can operate in any sector or line of business. It pays all its employees a salary under a collective bargaining agreement and it always has an entry in the Finnish Trade Register. The difference from other companies lies in the fact that at least 30% of the employees in a social enterprise are disabled or all are disabled or previously unemployed in the long term. In addition, the company must have an entry in the register of social enterprises held by the Ministry of Employment and the Economy. Only a company with an entry in this

register can use the name and business ID of a social enterprise in its business operations and marketing.'

Social enterprises enjoy the same status as other companies regarding private and public financing. They may, however, be [granted](#) pay subsidies and employment policy assistance. On 8 April 2015, there [were](#) 87 companies in the register comprising social enterprises. The number is very small, and it is clear that such a small group cannot have any significant effect on the employment of the disabled and long-term unemployed.

In their research report on social enterprises in Finland, Grönberg and Kostilainen (2012) say that social enterprises have performed better than their reputation suggests. The survival rate of social enterprises is somewhat higher than that of other business enterprises. The successful integration of a social enterprise depends, above all, on a suitable business idea, sufficient business expertise, availability of suitable employees who qualify for a subsidy, and the amount and duration of the pay subsidy (Grönberg and Kostilainen., 2012: 15-16).

In the Finnish case, social firms are also usually mentioned in this context. The criteria for social firms are that the purpose of the firm is to benefit the social good by doing socially and environmentally responsible business. The profit should be allocated to the social purpose and the business should be conducted in an open and transparent way. The secondary criteria for a social firm are good employee participation and influence in decision-making in the firm, evaluation and measurement of the social impact of the firm, employment of people who are disadvantaged in the labour market. These criteria are expressed in the Finnish certificate of a social firm 'Yhteiskunnallinen yritys'. This certificate is awarded by [Suomalaisen Työn Liitto](#), which is an organisation that aims to promote the appreciation and success of Finnish work and enterprise. Currently 62 firms hold the social firm mark 'Yhteiskunnallinen yritys' (see the list of firms [here](#)), and most of them are active in the sector of welfare and health services. These companies are typical representatives of the third sector, and foundations, social organisations and associations run many of them.

The development of social enterprises and social firms in Finland during the past two decades has been connected to the overall development of the social and health services sector in two ways. On the one hand, they are functional in the on-going process of remodelling the structure of public welfare services. On the other hand, especially the social firm is one way for the traditional third-sector organisations to run their business activities. In other words, social firms are defined as a social innovation (Pättiniemi and Kostilainen, 2013). The number of certified social firms and registered social enterprises in Finland is small, especially if it is compared to the estimations of potential numbers of social firms and social enterprises, which range between 5,000 and 15,000 (Pättiniemi and Kostilainen., 2013: 5). Some of the major organisations in the field have formed a [coalition](#) of social firms in Finland in 2013 as a central organisation to promote their common interests. This coalition works in collaboration with the [Finnish Social Enterprise Research Network](#), which has over 100 members.

Considering that there are 87 social enterprises in the register and 62 firms holding the mark social firm in Finland and about 100 members in the Finnish Social Enterprise Research Network, it is perhaps only a slight exaggeration to say that there are almost as many researchers as there are active enterprises and firms working in this field.

The funding of social innovation in welfare services

As mentioned earlier, private companies and third sector organisations provide 31 per cent of social services and 20 per cent of health services in Finland. Municipalities and other organisations in the public sector are their biggest clients. The public sector uses its power as a customer to regulate the services they commission. In recent years, public procurement has become a new policy tool for creating innovation incentives for service providers. This is expressed for example in the latest Research and Innovation Policy Council Review:

'Key methods of supporting and increasing demand for innovations will include R&I friendly public procurements, taxation, regulation and standardization. The policy tools for demand must be developed across administrative boundaries and policy domains, in a determined manner and more extensively than today' (Research and Innovation Policy Council., 2014: 24).

Finland's Slot Machine Association (RAY) has been described as a unique social innovation in the whole world. It was established in 1938 and it has the exclusive right to operate slot machines, casino games and casino activities in Finland. RAY's profits total approximately EUR 400 million a year, and of this approximately EUR 300 million is distributed, in accordance with the Ministry of Social Affairs and Health's decision, to non-profit health and social welfare organisations and foundations. Approximately EUR 100 million goes to the State Treasury for the purpose of helping war veterans. Funding is granted annually to organisations on the basis of applications. In 2015, altogether 789 [organisations](#) in the social and health sector received funding (Juvakka and Mykrä, 2008).

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The CRESSI project explores the economic underpinnings of social innovation with a particular focus on how policy and practice can enhance the lives of the most marginalized and disempowered citizens in society.



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